

Claims

- [c1] 1. A method of auditing the performance of investment portfolios, comprising the steps of:
- providing an allocation alternative database;
 - providing a market–sector indices database;
 - providing a mutual fund performance database;
 - providing a user input of a composition of an investment portfolio;
 - translating the user input into higher aggregations of portfolio composition and management functions;
 - analyzing the performance of the investment portfolio for the function of asset allocation strategy selection in terms of the management of both investment loss and investment uncertainty risk;
 - analyzing the performance of the investment portfolio for the function of market–sector portfolio selection in terms of the management of both investment loss and investment uncertainty risk ;
 - analyzing the performance of the investment portfolio for the function of individual investment selection in terms of investment loss risk ;
 - reporting first results of the performance of the investment portfolio of the relative level of loss risk generated

by the selection of individual investments at the market-sector level;
reporting second results of the performance of the investment portfolio of the relative levels of loss and uncertainty risk generated by the selection of investments at the market-sector level;
reporting third results of the performance of the investment portfolio of the relative levels of loss and uncertainty risk generated by the selection of an allocation strategy at the asset allocation level;
generating an audit report from the first, second and third results.

- [c2] 2. The method of Claim 2, wherein the step of providing user input further comprising the steps of:
determining whether the type of investment as being a mutual fund, other book-valued investment fund, market-valued investment fund or a primary-market security.
- [c3] 3. The method of Claim 3, further comprising the following steps if the investment type is a mutual fund, other book-valued investment fund, market-valued investment fund:
setting a period of evaluation having a start and an end;
determining an investment amount at the start of the period of evaluation;

determining an investment amount at the end of the period of evaluation.

[c4] 4. The method of Claim 3, further comprising the following steps if the investment type is a primary-market security:

providing an initial-period and ending period market value and record of distributions paid for cash-investment securities;

marking any savings, short-term investment, transaction accounts as "low-risk";

marking bonds as "average risk";

marking stocks trading on the American Stock Exchange and New York Stock Exchange as "above average risk";

marking domestic stocks not trading on the American Stock Exchange and New York Stock Exchange as "aggressive risk";

marking stocks in foreign companies and within the precious metals industry as "contrarian risk";

tallying the change in the market value of any options, futures contracts and other hedging devices over the analysis period, and netting this change in value against the period gross return from the cash-investment securities for covering therewith;

determining a net return from the cash-investment securities ; and

recording net return amount.

[c5] 5. The method of Claim 1, wherein the step of analyzing the performance of the investment portfolio in terms of the selection of an allocation strategy further includes the steps of:

determining the initial asset allocation strategy;
determining the attributes of the strategy in terms of relative levels of investment loss and investment uncertainty risk at the time of initiation of the strategy;
determining the attributes of the initial strategy in terms of relative levels of investment loss and investment uncertainty risk historically;
determining the current allocation strategy;
determining the attributes of the strategy in terms of relative levels of investment loss and investment uncertainty risk for the current analysis period; and
determining the attributes of the current strategy in terms of relative levels of investment loss and investment uncertainty risk historically.

[c6] 6. The method of Claim 1, wherein the step of analyzing the performance of the investment portfolio in terms of the selection of market-sector investments further includes the steps of:

determining the composition of the sector investment portfolio at the beginning date of the analysis period;

determining the current composition of the sector investment portfolio;

determining the periodic returns recorded for each of the investments within the sector portfolio over the analysis period;

determining the attributes of the sector portfolio in terms of relative levels of investment loss and investment uncertainty risk at beginning date of the analysis period; and

determining the attributes of the sector portfolio in terms of relative levels of investment loss and investment uncertainty risk over the span of the analysis period.

- [c7] 7. The method of Claim 1, wherein the step of analyzing the performance of the investment portfolio in terms of the selection of individual investments further comprises the steps of:
- determining the attributes of the selected investments in terms of their relative level of investment loss risk at time of acquisition; and
- determining whether the attributes of the selected investments in terms of their relative level of investment loss risk currently.

- [c8] 8. The method in claim 1, wherein the step of analyzing the attributes of the functions of allocation strategy,

market-sector portfolio and individual investment selection in terms of their relative level of investment loss risk comprises the steps of:

determining a peer group for this relative measure that is constructed from a representative population of all the selection alternatives available to the manager for the analysis period;

determining a benchmark measure of average investment performance for that peer group over the analysis period using the tenets of the Capital Assets Pricing Model to construct a market line through a point of average investment return and investment risk for the peer group; and

grading the relative strength of the manager's selection performance by the relationship of the investment performance derived from his selection for the analysis period to this market line.

[c9] 9. The method in claim 1, wherein the step of analyzing the attributes of the functions of allocation strategy and market-sector portfolio selection in terms of their relative level of investment uncertainty risk comprises the steps of:

determining a peer group for this relative measure that is constructed from a representative population of all the selection alternatives available to the manager for the

analysis period;
determining a benchmark measure of investment risk that peer group over the analysis period as the level of risk generated by a portfolio made up of all the selection alternatives available to the manager for the selection function over the analysis period;
designating the portfolio made up of all the selection alternatives available to the manager for the selection function as the population portfolio and the benchmark measure derived from this portfolio as the risk-axis for the peer group; and
grading the relative strength of the manager's selection performance by the relationship of the investment performance derived from his selection for the analysis period to this risk-axis and the peer group market line.

[c10] 10. The method of claim 8, wherein the peer group used to determine relative performance for the function of asset allocation selection is comprised of the population of asset allocation alternatives that can be constructed from the combination of five market-sector populations in increments of 5-percent each.

[c11] 11. The method of claim 9, wherein the peer group used to determine relative performance for the function of market-sector portfolio selection is comprised of the population of mutual funds present within each market-

sector for the analysis period.

- [c12] 12. The method of claim 9, wherein the point of investment risk marked for the risk-axis is the point of investment risk for the population portfolio for each of the populations of asset allocation strategy alternatives market-sector portfolio alternatives available in the analysis period.
- [c13] 13. The method of claim 10, wherein the market-sector investment performance used to calculate the performance characteristics of the population of asset allocation alternatives is the investment performance of the population portfolio for each market-sector over the analysis periods.
- [c14] 14. The method of claim 9, wherein the grade calculated for the relative strength of the manager's selection performance in terms of his management of investment uncertainty further comprised the steps of:
assigning the manager to one of four groups based on the position of the investment performance of his selections relative to the intersection of the peer group market line and risk-axis;
determining the probable position of the investment performance of his selections relative to the peer-group market line for a time period subsequent to the analysis

period based on historical precedent;
communicating the findings of the probable position of the investment performance of his selections relative to the peer-group market line for a time period subsequent to the analysis period in terms of the characteristics of statistical probability and correlation to the relative pattern of investment returns for the peer group in that subsequent period.